Estate Beneficiary of IRA: IRS Allows Transfers to Inherited IRAs for Beneficiaries of Estate

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In private letter ruling (PLR) 201208039, the estate of the deceased IRA owner was the named beneficiary of the IRA. However, the IRS ruled that the beneficiaries of the estate, who happened to be the decedent's children, were allowed to transfer the decedent's IRA to their 'Inherited IRAs'.

Background

Generally, the assets remaining in an IRA after the owner's death are distributed to the named beneficiary. If the named beneficiary is the decedent's estate, the assets must be distributed under the five-year rule if the owner died before the required beginning date (RBD); or over the remaining life-expectancy of the decedent, if the owner died on or after the RBD.

Summary of the Request and IRS Ruling

The IRA owner died after her RBD and was survived by four children. At the time of her death, her estate was the sole named beneficiary of her IRA.

Her last will and testament, which was admitted to probate court, provided that all of her estate's interest was bequeathed to a trust, which is referred to in the PLR as Trust T. Trust T includes a provision that divided Trust T into two separate trusts upon her death:

1. Trust F, a credit trust, and
2. Trust S, a survivor's trust.

Trust F was intended to be used for the payment of tax obligations relating to the death of the IRA owner and the remainder of her estate's interest was bequeathed to Trust S. Her four children are the sole beneficiaries of Trust F, Trust S and Trust T.

Her children executed an agreement in county court, under which they waived the funding of Trust T. The terms of the agreement included a provision under which the estate's interest passed to Trust S. According to the PLR, it was represented that both Trust S and the disclaimer of the Trust T are valid under State law, and as a result, Trust S is the sole beneficiary of the estate.

Trust T provided that upon the death of the IRA owner, the trustee is directed to distribute the trust estate equally among her four children.

Her children submitted a PLR request to the IRS, in which they requested approval to have the balance of the decedent's IRA split in four equal amounts and transferred to Inherited IRAs titled in their names, instead of to an Inherited IRA for her estate. Under the Inherited IRA rules, this means that the amount would be moved to four Inherited IRAs, with each titled in the children's name (one Inherited IRA for each child) and the name of the decedent, using the child's tax identification number for tax reporting purposes.

They also wanted the IRS to confirm that the movement of assets to their inherited IRAs would not be treated as a distribution and rollover, and that each beneficiary would take required minimum distribution

(RMD) amounts from their Inherited IRAs based on the remaining life-expectancy of the decedent. Each beneficiary's RMD would be independent of any RMD amount taken by the other beneficiaries.

The IRS' Response

The IRS approved the children's request.

Our Comment

Allowing the beneficiaries to distribute the assets over the remaining life expectancy of the decedent is consistent with the provisions of the RMD regulations. Had the assets remained in the name of the estate and the decedent, the same distribution option would apply. Therefore, the IRS' approval of the beneficiaries request does not extend the period over which distributions can be stretched; it simply changed the party that to which distributions would be reported .

Learning Opportunity

This presents a learning opportunity for retirement account owners. If the objective is to have specific individuals inherit retirement accounts, then it may be practical to name those individuals as beneficiaries on the account-agreements or beneficiary forms. Exception applies in cases where distribution or estate planning needs may require otherwise. Naming the individuals as beneficiaries on the beneficiary forms could allow the beneficiaries to stretch distributions over longer periods. In cases such as these, they would be able to avoid the expenses that would be incurred and time spent with seeking a PLR from the IRS.